



State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency

DEPARTMENT OF GENERAL SERVICES

Executive Office

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February 16, 2007

Chair
Joint Legislative Budget Committee
State Capitol, Room 5035
Sacramento, CA 95814

Dear Chair:

Pursuant to the requirements of Government Code Section 14982, the Department of General Services (DGS) is submitting the Legislative Report on the Procurement of Prescription Drugs.

In keeping with our commitment to encourage conservation, we have posted this report to our website. The report can be viewed at <http://www.legi.dgs.ca.gov/Publications/2007LegislativeReports.htm>. The report is entitled *Annual Report to the Legislature on the Procurement of Prescription Drugs*.

If you wish to receive a printed copy of this report, please contact Greg Doe, Pharmaceutical Program Consultant, Procurement Division, Department of General Services, at (916) 375-4533.

Sincerely,

Will Bush
Interim Director

cc: See attached distribution list
Rita Hamilton, Deputy Director, Procurement Division, Department of General Services
Greg Doe, Pharmaceutical Program Consultant, Procurement Division, Department of General Services



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DEPARTMENT OF GENERAL SERVICES

Procurement Division

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Annual Report to the Legislature on the Procurement of Prescription Drugs

January 2007

Annual Report on Procurement of Prescription Drugs

INTRODUCTION

Assembly Bill 139 (Chapter 74, Statutes of 2005) requires the Department of General Services (DGS) to report annually to the Chairperson of the Joint Legislative Budget Committee and the chairs of the fiscal committees of the Legislature on any joint activities of the DGS, the University of California (UC), and the Public Employees' Retirement System (CalPERS) in connection with procurement of prescription drugs and any resulting cost savings. This legislation also requires the DGS to develop an annual work plan describing the DGS' annual activities to reduce the State's costs for prescription drugs and estimate of cost savings. State institutions purchase about \$185 million through this program.

The 2005 Budget Act authorized additional staffing for the recruitment and hiring to fill the new positions and vacancies.

JOINT ACTIVITIES OF THE DGS, UC, AND CalPERS

In January 2006, the DGS entered into initial discussions with both the UC and CalPERS to explore opportunities to consolidate drug procurement or engage in other joint activities that will result in cost savings in the procurement of prescription drugs. Through initial conversations with the UC and CalPERS, it was determined that opportunities may exist to share information about and improve upon:

- A formulary system;
- Drug contracting;
- Coordinating programs offered by pharmaceutical manufacturers providing prescription drugs free or at reduced cost;
- Group purchasing organizations;
- Pharmacy benefit managers; and
- The use of a pharmaceutical prime vendor.

The DGS has been working with the UC and CalPERS to build a foundation to begin quarterly meetings among the DGS, UC, and CalPERS to facilitate the sharing of information that is not prohibited by any other provision of law or contractual agreement for which the disclosure may adversely affect potential pharmaceutical drug procurement by a State agency. These meetings will begin in December 2006. The DGS and UC will review CalPERS' Pharmacy Carve-Out Study and Request for Proposal for their newly-awarded Pharmacy Benefit Manager for their Self-Funded Health Plans Pharmacy Program to determine whether there are ways to consolidate and expand the Pharmacy Benefit Manager's role with the State agencies. Meetings are scheduled at least quarterly and more often when required.

Annual Report on Procurement of Prescription Drugs

Other Collaborative Effort

Consistent with the requirements of Government Code Section 14982(6)(3), the DGS is currently collaborating with the UC through the California Mental Health Care Management (CalMEND) program. CalMEND is a consortium of publicly-funded providers and purchasers of mental health services dedicated to improve upon both the quality and the cost of mental health services to persons served by these entities. CalMEND will coordinate resources among organizations to develop clinical practice guidelines, algorithms, procedures, and policies integrated with patients, families, and caregivers.

Co-chaired by California's Department of Health Services (DHS) and Department of Mental Health (DMH), CalMEND is coordinated by a policy oversight committee composed of representatives from:

- The California Institute for Mental Health;
- Patient advocates;
- Department of Developmental Services (DDS);
- California Department of Corrections and Rehabilitation (CDCR);¹
- County mental health plans;
- The UC;
- Regions 21 and 22 of the Veterans Integration Service Network; and
- The DGS and other State, local, and public agency governmental entities.

In addition, the Common Drug Formulary (CDF)² Committee is represented in working subcommittees of CalMEND. CalMEND's plan is to build upon the CDF Committee's guideline for the selection of antipsychotic medications. This effort is expected to result in common approaches to the use of medications through implementation within participating organizations. The DGS will continue to translate these efforts into a procurement plan for medications relating to mental health services.

DGS PHARMACEUTICAL PROGRAM EFFORTS

Pharmacy Advisory Board/CDF

A central Pharmacy Advisory Board was developed, which works in conjunction with the DGS to implement and administer a Statewide pharmaceutical program and implement strategies to manage escalating prescription drug prices. The Pharmacy Advisory

¹ In February 2006, the California Department of Corrections and Rehabilitation (CDCR) healthcare system was placed under federal receivership, pursuant to federal court order in the case of Plata vs. Schwarzenegger (U.S. District Court, Northern District of California, Case No. C01-1351-T.E.H.). CDCR's pharmacy operations are a focus area of the Receiver. It is not yet known what impacts the receivership may have on the program efforts described in this report.

² The Common Drug Formulary (CDF) serves as a steering committee to consolidate the formularies of participating entities into one CDF system. The CDCR, DMH, DDS and California State University System participate in this program.

Annual Report on Procurement of Prescription Drugs

Board provides oversight to the CDF Committee. The DGS is currently working with departments to verify who their representatives will be on this Board.

Efforts of the CDF Committee include developing a protocol for the selection of antipsychotic medications, based largely on a review of drug efficacy literature, and guidelines for their use. Practice guidelines, including the American Psychiatric Association Practice Guidelines, the Texas Medication Algorithm Project, and the Oregon Evidence-based Practice Center Drug Class Review on Atypical Antipsychotic Drugs were used to develop this protocol. This protocol is organized on the principle of developing a formulary that uses a tier system to guide the selection of a particular medication in the course of treatment. Physicians are guided to prescribe from the first tier drugs before moving to the more costly second tier drugs. Absent appropriate clinical exceptions, and for a new patient who does not have a history of adverse effects, physicians are expected to use this protocol for prescribing atypical antipsychotic medications, when the use of such medications is indicated by the patient's symptoms. The DGS is currently under negotiations and renewing contracts for the atypical antipsychotic medications. These negotiations are consistent with the work being conducted through CalMEND.

The CDF Committee and the DGS have identified the therapeutic drug categories which account for the top 80 percent of the State's drug spending. The DGS identified the major disease states which these drugs are used to treat. The DGS is identifying the major therapeutic guidelines for these disease states and finalizing the process and data components to begin the procurements for these therapeutic category reviews. Part of this plan is to identify drugs which have less expensive equivalents including generic equivalents and other drugs that are therapeutically equivalent. The DGS has participated with the non-profit group Medicine for People in Need and the University of San Francisco in developing a Drug Class Review on the Selective Serotonin Uptake Inhibitors. Outcomes of these reviews should result in appropriate use of prescription drugs and reduced costs to the State. The CDF is published on the Internet at www.pd.dgs.ca.gov.

Using Current Contracting Methods

The DGS currently contracts for pricing on prescription drugs for the bulk purchasing program through negotiations with pharmaceutical manufacturers, the Invitation for Bid (IFB) process, and a Group Purchasing Organization (GPO) accessed through the Massachusetts Alliance for State Purchasing. These purchasing programs will be continued, and others offering cost savings to the State will be explored. The DGS is in the awards process for the biennial drug IFB. The DGS changed the evaluation process to compare IFB pricing to pricing available or through the GPO. Contracts were only awarded to manufacturers that bid pricing lower than available through the GPO. Historically, the DGS has awarded about 600 line items through the biennial IFB. The DGS is planning on awarding 220 line items to three pharmaceutical manufacturers from this IFB, which are projected to offer \$1 million in savings off the prices available through the GPO.

Annual Report on Procurement of Prescription Drugs

Strategically Sourced Contracts

Strategic Sourcing is a process designed to allow the State of California to purchase the best products and services for the best value. Using this purchasing approach, the buyer analyzes what is being purchased, what the market conditions are, and who can supply those goods or services. The buyer then uses that information plus innovative contracting techniques to find the best values available in the marketplace.

The DGS strategically sourced a contract for proprietary prescription drugs used to treat Hepatitis C that went into effect on April 1, 2005. Savings from the Hepatitis C contract total more than \$1.1 million from April 2005 through June 2006. Figures for the first half of the 2006-07 Fiscal Year are not yet available.

The State conducted a strategically sourced procurement that resulted in a Prime Vendor (PV) contract being awarded to AmerisourceBergen Drug Corporation effective March 1, 2006. The new PV contract preserves discounts that were negotiated by the DGS with pharmaceutical manufacturers and is projected to save the State \$1.4 million per year through improved discounts and rebates. The pricing established by pharmaceutical contracts is available through the State's pharmaceutical PV. This contract set the following advantages over the previous PV contract:

- Each pharmacy received a wireless handheld iScan™ device for ordering, receipt, and inventory;
- The contract has provisions for the return of outdated prescription drugs;
- Many non-contract drugs will be sold at a 1.2 percent discount off the wholesale acquisition cost (WAC); the previous contract was at the WAC rate;
- This contract has no administrative fee charged by vendor, while the previous contract charged a 0.05 percent service fee; and
- This contract has a prompt payment discount of 2.5 percent if payment is postmarked within 20 days.

The DGS is in the contracting process for reverse distribution and destruction of pharmaceuticals that cannot be returned through the current Pharmaceutical PV contract.

The DGS strategically sourced and awarded a Pharmaceutical Benefits Manager (PBM) Contract enabling the CDCR's parolee pharmaceutical dispensing program to cover the dispensing of mental health medications which are required as a condition of parole. Prior to this contract, the CDCR purchased these medications through a contract with Rite Aid. The Strategic Sourcing process reports a savings of \$2.3 million from March 2006 through September 2006. Initial estimated savings to the State on purchases of prescription drugs through this PBM contract were \$3.9 million annually. The DGS is reviewing the CalPERS' Pharmacy Carve-Out Study and Request for Proposal for their Pharmacy Benefit Manager for their Self-Funded Health Plans Pharmacy Program as part of the strategic procurement planning for this contract. The DGS is also exploring options to include the CDCR Division of Juvenile Parole Operations (DJPO) in this contract.

Annual Report on Procurement of Prescription Drugs

Department of Health Services

The DGS has entered into a series of service contracts between the State of California and suppliers and agencies from other states for the development of Botulism Immune Globulin Intravenous (Human), also known as BIG. The DHS is the official sponsor of BIG and is responsible for providing and distributing BIG to infant botulism patients nationwide (Health and Safety Code Section 123700 Part F). Infant botulism is an acute, life-threatening paralytic disease of babies caused by a potent bacterial neurotoxin. Half of all cases of infant botulism in the United States occur in California, where the causative bacterial spores are known to be highly endemic. In any given year, between 30 and 50 infants with botulism are hospitalized in California, thus qualifying infant botulism as an "orphan disease" as defined by the federal Orphan Drug Act of 1983 (P.L. 97-414, as amended).

DHS Emergency Preparedness Office (EPO)

The DGS has been working closely with the EPO to meet their procurement needs for pandemic flu. The DGS has prioritized these contracts as they are a public health concern.

The DGS has contracted for antiviral and respirator for the DHS' pandemic response. The DGS contracted with the manufacturers of Tamiflu® (Oseltamivir) and Relenza® (Zanamivir) to access the federal contract pricing for pandemic stockpile for these Antiviral Agents. These contracts provide a 25 percent federal reimbursement from the federal price. The DGS has released purchase orders for \$54,697,990.33 resulting in 3,727,053 courses of therapy against these contracts for the State and Los Angeles County. Local agencies will be able to contact the DGS to order off these contracts.

FUTURE PLANS

The DGS will work through the Pharmacy Advisory Board and the CDF Committee and Pharmacy Advisory Board to increase the participation of other State entities and explore options to increase value-based purchasing. Such purchasing will require the coordination of resources between organizations and other State entities to develop or adopt clinical practice guidelines, algorithms, procedures, and policies.

Attachment I contains the work plan that the DGS believes will enable continued savings in its prescription drug procurements.

Currently no other entities, other than those mandated by law, are purchasing through the DGS Pharmaceutical Bulk Purchasing Program. As the DGS concludes therapeutic category reviews and the CalMEND process involves other entities, the DGS will promote the Pharmaceutical Bulk Purchasing Program as an option for cost-effective purchasing.

Annual Report on Procurement of Prescription Drugs

Attachment I

DGS Work Plan 2007 - 2008		
Activity	Goals	Estimated Annual Savings
DGS, UC, and CalPERS ongoing discussions	<p>Generate a plan for cost savings through the procurement of prescription drugs. Options to explore may include:</p> <ul style="list-style-type: none"> • GPO; • PBM; • PV; • Consolidated pharmaceutical contracting; • Developing guidelines and protocols for the use of medications; and • Coordinating programs offered by pharmaceutical manufacturers and providing prescription drugs free or at reduced costs. 	Undetermined.
Pharmaceutical PV contracting	<p>Identify and develop pricing options which may be available through pharmaceutical PVs.</p> <p>Develop reporting procedures necessary to support pharmaceutical contracting and a CDF system in the organizations participating in the DGS Pharmaceutical Bulk Purchasing Program.</p>	The strategically sourced PV contract with ABC is projected to save the State \$1.4 million per year.
CDF	<p>Increase participation of other State entities in the CDF.</p> <p>Identify options of increasing value-based purchasing by coordinating resources between organizations to:</p> <ul style="list-style-type: none"> • Develop clinical practice guidelines and algorithms; • Adopt guidelines, policies, and procedures which are recognized as a standard of care; • Develop procedures and policies integrated with patient, family, and caregiver; and • Develop an implementation plan for the CDF within participating organizations. 	Undetermined.
Direct negotiation with pharmaceutical manufacturers	Contract with pharmaceutical manufacturers of drugs for which the CDF has developed or adapted guidelines, protocols, and algorithms; or has performed a therapeutic category review.	<p>The Atypical Antipsychotic Drug contracts are currently under negotiation.</p> <p>Hepatitis C contracts approximate savings of \$500,000 from April to October 2005.</p>
Evaluation of GPO contract with the Massachusetts Alliance for State Pharmaceutical Purchasing	Complete the evaluation process of the GPO to identify the best value to the State based on cost and volume of drugs used.	Undetermined.
Expand the State's Pharmaceutical Bulk Purchasing Program	Determine the feasibility and appropriateness of including in the bulk purchasing program other State, district, county, city, municipal, or public agency governmental entities, and other entities in the private sector, including employers, providers, individual consumers, and the uninsured.	Undetermined.
Parole PBM contract	Develop solicitation for PBM contract and determine feasibility of expanding access to Department of Juvenile Parole Operations.	Annual estimated savings of \$3.9 million.
Pharmacy Advisory Board regular meetings	<p>Coordinate the activities of the Pharmacy Advisory Board, the CDF, and other State efforts to improve, use, and reduce costs of pharmaceuticals.</p> <p>Identify areas to improve the Statewide pharmaceutical program.</p>	Undetermined.
Importation of Drugs	Determine the feasibility of importation of drugs from foreign sources.	Undetermined.